

MOUNTAINLAND HEAD START, INC.
87-0342445

**FINANCIAL STATEMENTS
AND REPORTS IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133**

Years Ended April 30, 2006 and 2005

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mountainland Head Start, Inc.

We have audited the accompanying statements of financial position of Mountainland Head Start, Inc. (a nonprofit organization) as of April 30, 2006 and 2005, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Mountainland Head Start, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mountainland Head Start, Inc. as of April 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2006, on our consideration of Mountainland Head Start, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions, laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Mountainland Head Start, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Mountainland Head Start, Inc. The schedule of revenues, expenses, and changes in fund balance-budget and actual is also presented for purposes of additional analysis, and is not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Squire & Company, PC

June 30, 2006

MOUNTAINLAND HEAD START, INC.
STATEMENTS OF FINANCIAL POSITION

April 30, 2006 and 2005

	2006	2005
Assets:		
Cash	\$ 77,719	\$ 46,221
Accounts receivable	1,294,769	950,431
Inventories	10,410	475
Prepaid expenses	40,342	31,117
Fixed assets, net of accumulated depreciation	<u>2,520,604</u>	<u>2,709,251</u>
Total assets	<u>\$ 3,943,844</u>	<u>\$ 3,737,495</u>
Liabilities:		
Cash overdraft	\$ 205,140	\$ 86,245
Accounts payable	154,127	71,231
Accrued payroll and related liabilities	1,052,974	860,769
Capital lease payable	<u>59,219</u>	<u>53,605</u>
Total liabilities	1,471,460	1,071,850
Unrestricted Net Assets:		
Undesignated	11,000	10,000
Designated for fixed assets, net of related liabilities	<u>2,461,384</u>	<u>2,655,645</u>
Total unrestricted net assets	<u>2,472,384</u>	<u>2,665,645</u>
Total liabilities and net assets	<u>\$ 3,943,844</u>	<u>\$ 3,737,495</u>

The accompanying notes are an integral part of these financial statements.

MOUNTAINLAND HEAD START, INC.
STATEMENTS OF ACTIVITIES

Years Ended April 30, 2006 and 2005

	2006	2005
Unrestricted Net Assets:		
Revenue and support:		
Federal financial awards	\$ 5,353,032	\$ 5,410,030
Non-cash contributions	1,025,003	953,895
Cash contributions	5,268	12,083
Other revenue	1,035	2,588
Interest income	250	250
Total unrestricted revenue and support	<u>6,384,588</u>	<u>6,378,846</u>
Expenses:		
Program services:		
Head Start grant	5,832,614	5,507,593
Head Start training grant	58,459	58,459
Child care food program	267,253	258,720
Supporting services:		
Management and general	<u>419,523</u>	<u>537,428</u>
Total expenses	<u>6,577,849</u>	<u>6,362,200</u>
Change in Net Assets	(193,261)	16,646
Net Assets at May 1	<u>2,665,645</u>	<u>2,648,999</u>
Net Assets at April 30	<u><u>\$ 2,472,384</u></u>	<u><u>\$ 2,665,645</u></u>

The accompanying notes are an integral part of these financial statements.

MOUNTAINLAND HEAD START, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended April 30, 2006

	Program Services			Supporting Services		Totals
	Head Start Grant	Head Start Training Grant	Child Care Food Program	Management and General		
Personnel	\$ 3,776,796	\$ -	\$ 98,039	\$ 305,529	\$	\$ 4,180,364
Facilities and occupancy	118,624	-	-	15,522		134,146
Food purchases	38,698	-	122,164	-		160,862
Insurance	107,137	-	-	5,645		112,782
Training and literacy	10,865	58,459	-	2,299		71,623
Interest	3,234	-	-	-		3,234
Parent programs	19,026	-	-	-		19,026
Professional services	55,462	-	-	10,861		66,323
Supplies and equipment	280,586	-	47,050	30,923		358,559
Travel	31,782	-	-	1,673		33,455
Depreciation	267,639	-	-	-		267,639
Transportation	144,833	-	-	-		144,833
	4,854,682	58,459	267,253	372,452		5,552,846
Contributed facilities and professional services	977,932	-	-	47,071		1,025,003
Total expenses	\$ 5,832,614	\$ 58,459	\$ 267,253	\$ 419,523	\$	\$ 6,577,849

The accompanying notes are an integral part of these financial statements.

MOUNTAINLAND HEAD START, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended April 30, 2005

	Program Services			Supporting Services	
	Head Start Grant	Head Start Training Grant	Child Care Food Program	Management and General	Totals
Personnel	\$ 3,934,810	\$ -	\$ 87,347	\$ 374,995	\$ 4,397,152
Facilities and occupancy	67,061	-	-	40,493	107,554
Food purchases	50,137	-	131,952	-	182,089
Insurance	40,642	-	-	2,724	43,366
Training and literacy	7,738	58,459	-	6,398	72,595
Interest	3,429	-	-	-	3,429
Parent programs	16,975	-	-	-	16,975
Professional services	44,889	-	-	14,116	59,005
Supplies and equipment	158	-	39,421	32,566	72,145
Travel	31,013	-	-	12,522	43,535
Depreciation	285,328	-	-	-	285,328
Transportation	125,132	-	-	-	125,132
	<u>4,607,312</u>	<u>58,459</u>	<u>258,720</u>	<u>483,814</u>	<u>5,408,305</u>
Contributed facilities and professional services	900,281	-	-	53,614	953,895
Total expenses	<u>\$ 5,507,593</u>	<u>\$ 58,459</u>	<u>\$ 258,720</u>	<u>\$ 537,428</u>	<u>\$ 6,362,200</u>

The accompanying notes are an integral part of these financial statements.

MOUNTAINLAND HEAD START, INC.
STATEMENTS OF CASH FLOWS
Years Ended April 30, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities:		
Change in net assets	\$ (193,261)	\$ 16,646
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	267,639	285,328
Loss on disposal of fixed assets	33,119	113,082
Change in operating assets (liabilities):		
Accounts receivable	(344,338)	(119,389)
Inventories	(9,935)	-
Prepaid expenses	(9,225)	(25,545)
Cash overdraft	118,894	217
Accounts payable	82,896	(15,987)
Accrued payroll and related liabilities	192,205	138,272
Net cash provided by operating activities	137,994	392,624
Cash Flows from Investing Activities:		
Proceeds from the sale of fixed assets	-	1,100
Purchases of fixed assets	(87,212)	(390,238)
Net cash consumed by investing activities	(87,212)	(389,138)
Cash Flows from Financing Activities:		
Capital lease payments	(19,284)	(15,995)
Net Change in Cash	31,498	(12,509)
Cash at May 1	46,221	58,730
Cash at April 30	<u>\$ 77,719</u>	<u>\$ 46,221</u>

Additional Information:

The Organization had no noncash investing or financing activities during the years ended April 30, 2006 and 2005.

The Organization paid interest of \$3,234 and \$3,429 for the years ended April 30, 2006 and 2005, respectively. The Organization paid no income taxes for those years.

The accompanying notes are an integral part of these financial statements.

MOUNTAINLAND HEAD START, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The financial statements of Mountainland Head Start, Inc. have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Organization - Mountainland Head Start, Inc. (the Organization) is a private, nonprofit organization formed September 15, 1978, for the purpose of administering the Head Start program and related activities in the Utah County and surrounding area. The Organization is exempt from income taxes under Section 501(a) of the Internal Revenue Code and is classified as a Section 501(c)(3) public charity.

The objectives of the Head Start program are to provide services to economically disadvantaged preschool children and their families and to involve parents in activities with their children so that the children will attain overall social competence. Parents also participate in various decision-making processes related to operation of the Head Start program.

The Organization has no general membership other than a Board of Directors consisting of individuals from the area who have an interest in the programs administered by the Organization. The Board establishes policies and procedures under the direction of the U.S. Department of Health and Human Services and manages the program with a Policy Council made up of parents elected by other parents of children in the program.

Inventories - Inventories at April 30, 2006, consist of food supplies valued at average cost or, if donated, at fair value at time of donation.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and support and expenses during the reporting period. Actual results could differ from those estimates.

Allocation of costs - Direct costs are charged to the appropriate program. Indirect (management and general) costs are charged to the Head Start Grant; an estimate of indirect costs has been reclassified from the Head Start Grant to the management and general expense category for reporting purposes.

Accounts receivable - Accounts receivable consist of Head Start and child care food program funds and sales tax reimbursements that have been earned but not yet received at year-end; the amounts were subsequently received by the Organization.

Compensated absences - Employees meeting certain service requirements receive vacation and sick leave benefits. The Organization records as an obligation the amount of unpaid compensated absences up to the amount of funding available in the current period; the Organization is not liable for any unfunded, unpaid compensated absences.

MOUNTAINLAND HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Fixed assets and related depreciation - Modular classrooms and equipment are stated at cost. Donated equipment is stated at fair value at date of donation. Fixed assets valued at \$5,000 or more are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives as follows:

Modular classrooms and improvements	10 - 30 years
Transportation equipment	10 years
Classroom and office equipment	5 - 20 years

Financial statement presentation - The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Net assets - The Organization recognizes revenues when reimbursable services are rendered. The source of funds received by the Organization is primarily from government contracts and noncash contributions. Net assets can be used to further the purposes of the contracts. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted contributions and grants that are received and spent in the same period are recorded as unrestricted support.

The largest portion of the Organization's net assets has been designated and reflects the Organization's investment in fixed assets (see Note 4), less any related outstanding debt used to acquire those assets. The Organization uses these fixed assets to administer the Head Start program; these assets are not available for future spending. Although the Organization's investment in fixed assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided by other sources, since the fixed assets themselves cannot be used to liquidate these liabilities.

Note 2. Cash

The Organization's carrying amount of bank deposits at April 30, 2006, is \$77,518 and an overdraft of \$205,140 and the bank balances total \$141,343, all of which is covered by federal depository insurance.

MOUNTAINLAND HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS

Note 3. Matching Contributions

Under the grant agreement with the U.S. Department of Health and Human Services (Head Start) for the year ended April 30, 2006, the Organization is required to match twenty percent of federal expenditures with nonfederal contributions.

These matching funds are non-cash contributions from the following sources:

Volunteer parent hours (817 families)	\$ 422,797
Other volunteers	<u>19,775</u>
Total volunteers	442,572
Facilities and occupancy	591,767
Professional services	296,755
Supplies and equipment	<u>134,519</u>
Total matching contributions	1,465,613
Total amount required per grant	<u>1,330,165</u>
Excess of contributions over amount required	<u>\$ 135,448</u>

Donated materials, professional services, and facilities are recorded at their fair value and are included as revenue and expense of \$1,025,003 for the year ended April 30, 2006. The value of volunteer parent hours is not recorded on the statements of activities.

Note 4. Modular Classrooms and Equipment

All modular classrooms and equipment have been acquired using grant monies and are stated at cost. The Organization is required to maintain property records of all property acquired through the use of federal grant monies. For such property, any money received at the time of the asset's disposal must be retained in the program or returned to the federal government. The following schedule is a reconciliation of the modular classrooms and equipment managed by the Organization as of April 30, 2006:

	Balance at 5/1/2005	Additions	Deletions	Balance at 4/30/2006
Modular classrooms and improvements	\$ 2,586,808	\$ 52,110	\$ (33,432)	\$ 2,605,486
Transportation equipment	1,192,013	41,128	-	1,233,141
Classroom and office equipment	<u>662,948</u>	<u>18,872</u>	<u>(76,203)</u>	<u>605,617</u>
Total	4,441,769	112,110	(109,635)	4,444,244
Accumulated depreciation	<u>(1,732,518)</u>	<u>76,517</u>	<u>(267,639)</u>	<u>(1,923,640)</u>
Net capital assets	<u>\$ 2,709,251</u>	<u>\$ 188,627</u>	<u>\$ (377,274)</u>	<u>\$ 2,520,604</u>

MOUNTAINLAND HEAD START, INC.
NOTES TO FINANCIAL STATEMENTS

Note 5. Tax Deferred Annuity Plan

The Organization has a tax deferred annuity plan that is available to all part-time and full-time employees. Full-time employees electing to receive this benefit must contribute at least 50 percent of the Organization's contribution to the plan. The Organization makes no contributions on behalf of part-time employees. The Organization's contributions for the years ended April 30, 2006 and 2005, were \$120,459 and \$116,348, respectively; employee contributions totaled \$68,650 and \$99,745, respectively.

Note 6. Capital Lease Obligations

The Organization has acquired buses under capital lease obligations. The economic substance of the leases is that the Organization is financing the acquisition of the buses through the leases; accordingly, the buses are recorded in the Organization's assets at cost and the present value of the net minimum lease payments is recorded in the Organization's liabilities. The leases are secured by the buses, bear interest at 5.5 and 8.75 percent, require monthly principal and interest payments of \$1,619, and mature in April 2008 and February 2011. The value of the buses and the accumulated depreciation is \$94,573 and \$18,519, respectively.

Future minimum lease payments for capital leases and the present value of capital lease obligations as of April 30, 2006, are as follows:

	<u>Years Ending</u> <u>April 30,</u>	
	2007	\$ 25,625
	2008	24,006
	2009	6,201
	2010	6,201
	2011	<u>4,548</u>
Minimum lease payments		66,581
Amount representing interest		<u>(7,362)</u>
Present value of net minimum lease payments		<u>\$ 59,219</u>

Note 7. Economic Dependency

The Organization receives most of its revenue from federal agencies to administer the Head Start program. Federal funds represent 84 and 85 percent of total unrestricted revenue for the years ended April 30, 2006 and 2005, respectively. In addition, the Organization reported \$1,025,003 and \$953,895 of non-cash contributions directly attributable to the Organization's Head Start program during the years ended April 30, 2006 and 2005, respectively.

SUPPLEMENTARY INFORMATION

Year Ended April 30, 2006

MOUNTAINLAND HEAD START, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended April 30, 2006

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Period	Program Award Amount	Accrued (Deferred) Revenue at 5/1/05	Receipts	Expenditures	Accrued (Deferred) Revenue at 4/30/06
U.S. Department of Agriculture:							
Passed Through Utah State Office of Education:							
Child Care Food Program	10.558	05/04-04/05	\$ -	\$ 31,932	\$ 31,932	\$ -	\$ -
Child Care Food Program	10.558	05/05-04/06	-	-	234,978	267,253	32,275
Total U.S. Department of Agriculture				31,932	266,910	267,253	32,275
U.S. Department of Education:							
Passed Through Reading is Fundamental:							
Reading is Fundamental	84.000		3,714	3,714	7,428	3,714	-
U.S. Department of Health and Human Services:							
Direct:							
Head Start -- Training and Technology Assistance (PA 20)	93.600	05/05-04/06	58,459	-	58,459	58,459	-
Head Start -- Full Year Head Start, Part Day (PA 22)	93.600	05/04-04/05	5,136,143	910,504	918,504	8,000	-
Head Start -- Full Year Head Start, Part Day (PA 22)	93.600	05/05-04/06	5,262,199	-	3,911,686	5,170,814	1,259,128
Total U.S. Department of Health and Human Services				910,504	4,888,649	5,237,273	1,259,128
Total federal awards				\$ 942,436	\$ 5,155,559	\$ 5,508,240	\$ 1,291,403

See accompanying notes to the schedule of expenditures of federal awards.

MOUNTAINLAND HEAD START, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A. General

The schedule of expenditures of federal awards (SEFA) presents the activity of all federal award programs of Mountainland Head Start, Inc. (the Organization). The Organization reporting entity is defined in Note 1 to the Organization's financial statements. All federal financial awards received directly from federal agencies as well as federal financial awards passed through from other government agencies are included on the schedule.

Note B. Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the budgetary basis of accounting.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Note C. Adjustment to Budgetary Basis

The Organization establishes its budget on a basis, which is different from actual activity, which is reported on a generally accepted accounting principle (GAAP) basis. Purchase orders and commitments outstanding at April 30 using grant monies are recorded as current year expenses. Purchases of fixed assets are reclassified as expenses rather than assets and depreciation expense is removed. In addition, service hours donated by parents are measured and recorded. Accordingly, actual activity is converted to the budgetary basis on the Schedule of Revenues, Expenses, and Changes in Fund Balance - Budget and Actual for comparison purposes.

The following schedule reconciles grant revenues on a GAAP basis to grant revenues on a budgetary basis and to the amount reported on the SEFA for the year ended April 30, 2006:

	PA 20	PA 22	Total
Federal Revenues on GAAP Basis	\$ 58,459	\$ 5,294,573	\$ 5,353,032
Outstanding purchase orders	-	155,208	155,208
Federal Revenues on Budgetary Basis and SEFA	\$ 58,459	\$ 5,449,781	\$ 5,508,240

MOUNTAINLAND HEAD START, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note C. Adjustment to Budgetary Basis (Continued)

The following schedule reconciles grant expenses on a GAAP basis to grant expenses on a budgetary basis for the year ended April 30, 2006:

	<u>PA 20</u>	<u>PA 22</u>	<u>Total</u>
Expenses on GAAP Basis	\$ 58,459	\$ 6,519,390	\$ 6,577,849
Outstanding purchase orders and prepaid expenses	-	166,493	166,493
Acquisition of fixed assets	-	87,212	87,212
Depreciation expense	-	(267,639)	(267,639)
Contributions - volunteer hours	-	439,880	439,880
Loss on disposal of fixed assets	-	(33,119)	(33,119)
Expenses on Budgetary Basis	<u>\$ 58,459</u>	<u>\$ 6,912,217</u>	<u>\$ 6,970,676</u>

MOUNTAINLAND HEAD START, INC.
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

Year Ended April 30, 2006

	Training and Technology Assistance (PA 20)				
	<u>Actual</u>	<u>Adjustments to Budgetary Basis</u>	<u>Adjusted Actual</u>	<u>Budget</u>	<u>Variance</u>
Revenues:					
Grant revenue	\$ 58,459	\$ -	\$ 58,459	\$ 58,459	\$ -
Expenses:					
Training and literacy	58,459	-	58,459	58,459	-
Total expenses	58,459	-	58,459	58,459	-
Excess of Revenues Over Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MOUNTAINLAND HEAD START, INC.
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

Year Ended April 30, 2006

	Full Year Head Start, Part Day (PA 22)				
	Actual	Adjustments to Budgetary Basis	Adjusted Actual	Budget	Variance
Revenues:					
Grant revenue:					
Head Start	\$ 5,023,606	\$ 147,208	\$ 5,170,814	\$ 5,170,814	\$ -
Child Care Food Program	267,253	-	267,253	267,253	-
Reading Is Fundamental	3,714	-	3,714	-	3,714
Non-cash contributions	1,025,003	439,880	1,464,883	1,330,165	134,718
Cash contributions	5,268	-	5,268	-	5,268
Other revenue	1,035	-	1,035	-	1,035
Interest income	250	-	250	250	-
Total revenues	6,326,129	587,088	6,913,217	6,768,482	144,735
Grant Expenses:					
Personnel	4,180,364	1,002	4,181,366	4,409,337	227,971
Facilities and occupancy	134,146	144,009	278,155	196,050	(82,105)
Food purchases	160,862	9,935	170,797	170,964	167
Insurance	112,782	109	112,891	106,106	(6,785)
Training and literacy	13,164	(5,557)	7,607	-	(7,607)
Interest	3,234	(3,234)	-	-	-
Parent programs	19,026	(1)	19,025	17,262	(1,763)
Professional services	66,323	(8,271)	58,052	79,770	21,718
Supplies and equipment	358,559	82,594	441,153	283,559	(157,594)
Travel	33,455	-	33,455	43,900	10,445
Depreciation	267,639	(267,639)	-	-	-
Transportation	144,833	-	144,833	131,119	(13,714)
Contributions	1,025,003	439,880	1,464,883	1,330,165	(134,718)
Total expenses	6,519,390	392,827	6,912,217	6,768,232	(143,985)
Excess of Revenues Over Expenses	\$ (193,261)	\$ 194,261	\$ 1,000	\$ 250	\$ 750

SINGLE AUDIT REPORTS

Year Ended April 30, 2006



Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

Board of Directors
Mountainland Head Start, Inc.

We have audited the financial statements of Mountainland Head Start, Inc. (a nonprofit organization) as of and for the year ended April 30, 2006, and have issued our report thereon dated June 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mountainland Head Start, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mountainland Head Start, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Squire & Company, PC

June 30, 2006



Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133

Board of Directors
Mountainland Head Start, Inc.

Compliance

We have audited the compliance of the Mountainland Head Start, Inc. (a nonprofit organization) with the types of compliance described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended April 30, 2006. Mountainland Head Start, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mountainland Head Start, Inc.'s management. Our responsibility is to express an opinion on Mountainland Head Start, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mountainland Head Start, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mountainland Head Start, Inc.'s compliance with those requirements.

In our opinion, Mountainland Head Start, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended April 30, 2006.

Internal Control Over Compliance

The management of Mountainland Head Start, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Mountainland Head Start, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in

which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Agui & Company, PC

June 30, 2006

MOUNTAINLAND HEAD START, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended April 30, 2006

I. Summary of auditor's results:

Financial Statements:

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Reportable condition(s) identified
that are not considered to be
material weaknesses? yes X none reported

Noncompliance material to financial
statements noted? yes X no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Reportable condition(s) identified
that are not considered to be material
weakness(es)? yes X none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of OMB Circular A-133? yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.600	Head Start

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X yes no

II. Financial statement findings:

No matters were reported.

III. Federal award findings and questioned costs:

No matters were reported.

MOUNTAINLAND HEAD START, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended April 30, 2006

No matters were reported in the prior year audit.